

# Does New Brunswick Receive Fair Market Value for Timber from Crown Lands?

In 2011, New Brunswick received approximately \$40 million in royalties (or stumpage) from Crown lands.<sup>1</sup> While this is lower than the Department of Natural Resources' (DNR) operating cost, the DNR has a broader range of responsibilities. Nevertheless, the population of New Brunswick wants to know if it is receiving a fair price for timber from Crown Lands.

Setting royalties, and determining if these are a "fair price," is a complicated process. While there has been no scientific research on this in New Brunswick, a number of independent studies and reports are available. Most importantly, the provincial Auditor-General reviewed the DNR royalty process in 2008, concluding that "the flaws in the system for establishing fair market value mean that the royalties do not reflect fair market value."<sup>2</sup> Although the DNR made some changes to the system, the Auditor-General considered that significant problems remained.

## TRENDS IN ROYALTIES IN NB FROM 2004 TO 2014

Changes in NB Crown royalties for 4 products<sup>3</sup> are illustrated in the Figure 1, in \$ / m<sup>3</sup>.

Spruce-fir sawlog royalties are currently \$23.74, their highest level for ten years.<sup>3</sup> Sugar Maple select sawlogs are at \$22.90, having risen and fallen in recent years. Pulpwood royalties have fallen significantly over the ten years, from \$10.35 to \$2.57 for softwood and \$4.99 to \$1.00 for hardwood. All rates are after deduction of the management fee (currently \$4.75).

The difference between pulpwood and sawlog prices for softwood is also signifi-

cant. In 2004-06 and 2009-11, softwood pulp was about half the price of sawlogs, but in 2014, the pulpwood royalty is about one-tenth of the sawlog rate. Large differentials require greater supervision by DNR staff to ensure that sawlog quality logs are not being sold as pulp.

## COMPARING ROYALTIES IN NB AND ELSEWHERE

Comparing royalties between provinces is difficult as items such as road building or replanting may be paid for by industry or government depending upon the province. As a result, it is almost impossible to state with certainty that royalties are higher or lower in New Brunswick than elsewhere. Nevertheless, some comparisons can help.

In 2008, the Roberts Report found average softwood royalties of \$9 in Quebec compared to \$15 in New Brunswick.<sup>4</sup> In 2011, an auction system was introduced for Crown timber in Quebec. Royalties for spruce and fir sawlogs in the Temiscouata region (adjoining northern NB) rose from \$12.46 in 2012-13 to \$14.96 in 2013-2014.<sup>5</sup> Similar rises occurred elsewhere.

Acadian Timbers, who manage both Crown and private forests in northern New Brunswick, reported a 5% increase in weighted sawlog prices in 2013.<sup>6</sup> Interestingly, the company's income from timber sales is higher than its operating costs.

## ROYALTIES ON CROWN LANDS AND ON WOODLOTS

In New Brunswick, royalties for Crown timber are based on a survey of prices from private woodlots in New Brunswick

Stephen Wyatt  
Edmundston  
stephen.wyatt@umoncton.ca,  
Michel Soucy  
Edmundston  
michel.soucy@umoncton.ca

Dr. Stephen Wyatt and Dr. Michel Soucy both teach at the École de foresterie, Université de Moncton, in Edmundston

and Nova Scotia, prepared for the DNR by a consultant. Average prices (2011-12) were \$22.69 for spruce-fir sawlogs and \$8.15 for hardwood pulpwood.<sup>7</sup> These averages do not become the royalty – instead the DNR makes its own calculations based on these averages and on monitoring of prices in the formal market.

The use of a market price has meant that the Maritime provinces have been exempted from restrictions under the 2006 Softwood Lumber Agreement for timber exported to the USA.

However, the system has been criticized because Crown lands provide more timber than any other source.<sup>2,8</sup> Originally, industry was expected to purchase timber principally from woodlot owner associations, with Crown lands providing a “residual” supply to enable the industry to meet its needs. However, in 1992, this system changed and Crown lands now provide a guaranteed volume while woodlots provide a residual source to meet fluctuating demand.

The guaranteed supply of large amounts of Crown timber creates an uneven-access market in NB, rather than an

open market. When demand is low, as during the recent forest industry crisis, then prices for woodlot timber will fall faster and lower than in an open market. This will then be reflected in Crown royalties. The Auditor-General warns of a “continual spiraling down of prices and therefore royalties.”<sup>2</sup>

Demand for timber products is currently increasing in North America and so demand for timber from all New Brunswick sources will probably increase. However, the dominance of Crown timber suggests that price rises for timber from woodlots will be slower and less than in an open market.

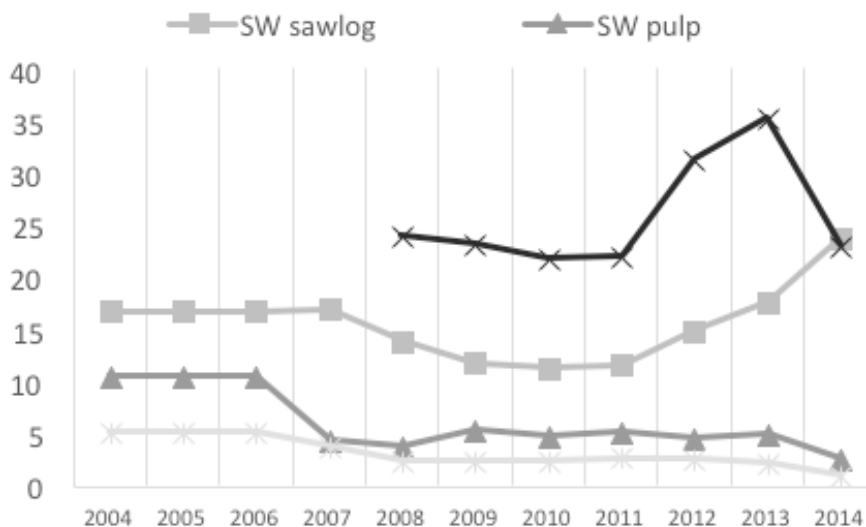
#### ROYALTIES IN DIFFICULT-TO-OPERATE AREAS

Under current policy, the DNR reduces royalty rates for timber coming from difficult to operate areas, with reductions of 25% for thinning and 50% for steep slopes. This is intended to compensate for higher costs involved in harvesting this timber.

#### CONCLUSION

Existing research and evidence does not confirm whether NB receives fair market value for Crown timber. However, the existing system creates an uneven-access market that disadvantages woodlot owners and that appears to exert a downward pressure on Crown royalties.

Figure 1 – Changes in NB Crown royalties for 4 products, in \$ / m<sup>3</sup>



## WHAT DOES THE NEW FORESTRY STRATEGY PROVIDE?<sup>9</sup>

The new forestry strategy predicts an increase in Crown royalty revenues, but does not indicate how much of an increase is expected.

Royalties on several major products fell significantly in 2014 and so it is unclear whether revenue from additional sales will be sufficient to offset the lower royalties.

Increasing the supply of Crown timber will enable industry to continue to rely primarily upon Crown Lands, making the existing market less open and exerting further downward pressure on prices for timber from woodlots.

If the USA concluded that NB did not pay market prices, then exports could become more difficult. Low prices from woodlots, or prices that rise slowly, will contribute to low Crown royalties in the future.

Much of the additional volume under the strategy is to come from wildlife habitat and difficult-to-access areas, and DNR may be requested to reduce royalty rates to compensate for higher harvesting costs.

### Sources

- 1 Crown land Task Force Report, 2011, DNR NB
- 2 Auditor-general of NB, *Annual Report 2008*, Chapter 5 DNR Timber Royalties
- 3 Data from Timber Regulation NB 86-160, annual revisions.
- 4 Future Opportunities for the Forest Products Industry in New Brunswick, 2008, *Business NB*
- 5 Data from Bureau de mise en marché du Québec, [www.bmmb.gouv.qc.ca](http://www.bmmb.gouv.qc.ca)
- 6 Acadian Timber Annual Report 2013
- 7 Survey Results and Prices for Standing Timber Sales from Maritime Private Woodlots, 2013, Nortel Resource Solutions
- 8 Private Forest Task Force Report, 2012, DNR NB
- 9 *A Strategy for Crown Lands Forest Management*, 2014, DNR NB

Blue Flag/ Iris versicolor  
Photo by D.F. McAlpine/New Brunswick Museum

